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President Michael Peevey
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Chairman Joe Desmond
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

RE: Energy Action Plan II

Dear President Peevey and Chairman Desmond:

We applaud the efforts of the CPUC and CEC in developing and implementing the 2003 Energy Action Plan (EAP) and in providing this revision. The reaffirmation of the energy policies developed in the earlier document, along with additional guidance on the implementation necessary to achieve the state's energy policy goals and the inclusion of several of the Governor's initiatives, helps the utilities plan for and execute against those policies.

In reviewing the draft Energy Action Plan II (EAP II) we have focused our comments on those areas that San Diego Gas & Electric (SDG&E) and Southern California Gas (SCG) believe are important to helping us succeed in implementing the EAP. We are committed to providing reliable, safe, and environmentally sound energy to our customers at reasonable prices. The recommendations that we have for modifications to the draft are those that we feel will help us achieve that objective.

The Commission should explicitly recognize that various key actions articulated in EAP II may be in conflict. Priorities will have to be placed among competing goals. This is perhaps most evident in the conflict which occurs between environmental and affordability goals. As recognized in EAP II, Californians already pay some of the highest electric rates in the country. To improve upon the already strong environmental record of energy production in California, it is likely that rates will be adversely impacted. Trade-offs will need to be confronted between the goal for reduced rates and the goals for lower emissions. A balance must be struck between the state's desire to push the envelope even further in its role as the environmental leader in the United States and the rates charged to California consumers and businesses to assure affordability and a healthy economy.

The following are section by section comments and recommendations.

Energy Efficiency and Demand Response

California has long been a leader in energy efficiency and the implementation actions outlined in EAP II will help assure that we remain in that position. SDG&E and SCG have recently filed for expanded programs to achieve aggressive energy efficient targets with an emphasis on peak demand reduction.

The demand response action items in EAP II recognize the importance and central role that advanced metering technology plays. Advance metering, when coupled with appropriate dynamic pricing tariffs, can play a key role in reducing peak demand, lowering energy prices, and avoiding service interruptions. A focus on technology and programs that can increase reliability and lower bills at the same time should be a priority.

Additionally, the integration of demand response programs with energy efficiency needs to be recognized as a desirable outcome with benefits in the form of reduced peak loads. Contributions to reducing peak demand from either source need to be counted in assessing progress toward stated demand reduction goals.

An equally important step will be adopting rates that reflect cost causation principles. Appropriate and successful demand response programs require that rates deliver appropriate price signals to consumers. This will require education on the time sensitive nature of electric costs and dynamic price signals.

Renewables

As with energy efficiency, California is the national leader in its application of renewable energy technologies. And while renewables mitigate emissions from fossil power plants and reduce price volatility, they are not uniformly distributed across the state. The full benefits of California's renewable resources will not be achieved if we fail to site new transmission. New transmission brings its own economic and reliability benefits that must be recognized, but it also provides the necessary conditions for robust development of potential renewable energy sources.

SDG&E and SCG agree with the draft EAP II key action to implement tradable renewable energy credits. We further recommend that the state should consider defining "renewables" for purposes of meeting the RPS to include demand management and energy efficiency, as the State of Nevada recently did. This would be consistent with the loading order that gives top priority to demand management and energy efficiency. These actions can assure that California meets its renewables goals in the most cost-effective manner.

Electric Market Structure

The importance of the issues to be addressed in this area cannot be overstated. Recognition of California's high electric rates is a first step in establishing a needed balance in energy policy.

There is still important work that needs to be done to achieve an efficiently functioning energy market. The fundamentals of market structure have not been resolved. We need a capacity market, reserve requirements for all market participants, resolution of direct access, and the RPS applied to all LSEs whether IOUs, ESPs, CCA,s or customer-owned utilities.

Electricity Infrastructure

Over the past few years we have heard a lot of discussion in connection with the EAP on the need for a streamlined, logical, once-through needs analysis and permitting process for electric transmission and yet a clear, integrated process has not been developed. We need to eliminate duplicative and iterative processes that result in litigating the same issue multiple times. We need to provide for better coordination with ISO findings of need for transmission such that there is no duplication of analysis or process. We also need a better environmental and infrastructure siting process so the environmental analysis can be done once, efficiently and cooperatively, rather than having the lead agency duplicate work done by the utility.

Natural Gas Supply and Demand

We applaud the recognition in EAP II of the need for increased access to natural gas. Increased gas supplies have the potential to mitigate gas price increases and/or volatility. However, we need to establish a sense of urgency in addressing this issue given the steady increase in natural gas prices.

Transportation Fuels

We would note that the transportation sector is the principal source of emissions in California and encourage the Joint Agencies to address all actions that can help reduce emissions in this sector.

Research, Development and Demonstration

We need greater emphasis on solving the problems that inhibit achieving the objectives of the EAP, including utilizing the considerable expertise that the utilities have. The Joint Agencies need to work cooperatively with the utilities to prioritize the research agenda and apply RD&D resources to high priority problems. Areas that we would recommend for focus include reducing the costs of renewables, addressing grid interconnection and stability issues, and technologies that reduce or sequester greenhouse

gases. We are also concerned that the draft suggests that Public Goods funds derived from electric and gas utility customers might be used to address transportation issues. The connection between policy objectives and utility rates needs to be carefully considered.

Climate Change

We are concerned that the key action items for climate change in the EAP II are overly ambitious given the current ability to account for greenhouse gases in the utility sector. Recent workshops discussing greenhouse gas reduction uncovered significant issues related to whether GHG reductions applied to utility-owned facilities only or to power purchased by the utility from private firms. Accounting for the emissions of large amounts of purchased power that cannot be associated with a particular plant is also problematic. We recommend that the EAP II focus on quantifying the GHG reductions first before developing other new loading order priorities. Separate climate change goals or cap-and-trade proposals should not be implemented until measurement issues can be resolved.

Utility emissions should be monitored through the California Climate Registry, with efforts focused on identifying the most cost-effective emissions reduction actions at utility facilities. Additional GHG reductions should be considered in the long-term resource planning process where the balance of utility rates and GHG emissions reductions can be considered.

SDG&E and SCG appreciate the opportunity to provide input into the development of EAP II and commend your leadership in creating a sound, sustainable statewide energy vision.

Sincerely,

A handwritten signature in cursive script that reads "Debra L. Reed". The ink is dark and the signature is fluid.

Debra L. Reed